

SFG

INCOME
FUNDS

NEWS OF INTEREST

SFG FAMILY OF FUNDS

SUMMER 2014

FUND UPDATE

FRESH LOANS,
TERRIFIC LOCATIONS,
SOLID EQUITY
CUSHIONS

SFG INCOME FUND'S
REJUVENATED PORTFOLIO IS
ONCE AGAIN A SAFE HAVEN
FOR INVESTOR CAPITAL.

In the wake of a major recession investors can become fearful, sometimes allowing the fear to last well beyond the threat. It is comforting to know that SFG Income Fund investors are positioned nicely today, with a refreshed, well-diversified portfolio of first position mortgages. SFG mortgages are soundly underwritten with our strict, foundational underwriting principles finely honed over the last 26 years. The fund is filled with some of the best equity loans the market has to offer and we recently posted one of the lowest non-performing asset percentages in our 26 year history!

Since we as fund managers see the fantastic daily transformation from a fund hit hard by the historic recession to a fund rejuvenated and showing consistently strong earnings, we dedicate our summer 2014 issue of *News of Interest* to illustrating this exciting reality. Keep in mind, all loans in the SFG portfolio are in first position with most originated in the last few years, post-recession. Our upgraded borrower quality and highly marketable collateral facilitates continued portfolio fluidity. Loans generally come in and out of the fund quickly, creating healthy levels of liquidity. Our typical loan now pays off inside of a year as borrowers execute their intended strategies. Growing loan demand may prompt another investor offering sometime in 2015. This would be our first fund opening since 2008 and will only be created when the size of our current fund (SFG Income Fund VI) cannot reasonably meet rising loan



The SFG investment mantra has always been quality over quantity but today the strong brand recognition of Seattle Funding Group has positioned us to obtain both.

SUCCESS STORIES: SFG PORTFOLIO KEEPS GETTING BETTER...



\$1,260,000 **60% LTV** **1910 Mansion Remodel with Short Plat** **Mercer Island, WA**

This 6,800 sq. ft. mansion style home, built in 1910 on an oversized in city lot with partial views of Lake Washington, was recently purchased by JayMarc Homes for the purpose of redevelopment, at a price of \$2.1 million. SFG has worked with JayMarc Homes over the past few years and they have established a great presence and reputation in the community for building quality high-end homes on Mercer Island, Bellevue, Clyde Hill, Enatai, Newcastle, and Issaquah, all premier Seattle area communities. The subject property is located on Mercer Island in the northwestern neighborhood known as East Seattle. This neighborhood is within a few blocks of the Downtown corridor of Mercer Island, has very convenient access to I-90 and is one of the most affluent sub markets in King County. JayMarc is working to carve off another buildable lot to build one spec home. There is also an additional separate tax parcel for immediate development. JayMarc plans to remodel the existing mansion and place it back on the market. Mercer Island has a very limited inventory of new homes for sale, and demand continues to outpace supply.



\$2,700,000 **41% LTV** **Where Tenants Want to Be** **Ballard (Seattle), WA**

Highly regarded developer held this fully entitled prime infill mixed use apartment site in trendy, high demand Seattle submarket of Ballard, free and clear. The site entitlements comprised of 106 apartment/condo units and five retail spaces totaling 4,500 sq. ft. Market value of the site is well in excess of \$6 million. Seattle Funding Group's first position loan gave a much needed capital injection to the developer. This developer is a repeat SFG customer.

...AND BETTER...

\$2,400,000 60% LTV
Time Sensitive Bridge Financing
Banker's Hill (San Diego), CA

This terrific, contemporary row home project was conceived prior to the downdraft and completed in the teeth of the turbulence. Fortunately, the sponsors (borrowers) were able to hold on until this quality, well-located project experienced market lift, and when presented with an opportunity to restructure the matured, assigned construction debt, Seattle Funding Group was there.

Update: Since this transaction funded, two of the units have sold bringing our loan down to \$750,000, below 20% LTV.



\$3,250,000 49% LTV
New Residential Construction
Palm Desert, CA

The Sponsor was building a spec home in one of the nation's most prestigious golf course communities – Bighorn in Palm Desert. The Guy Dreier designed home has the exciting, contemporary look that appeals to Bighorn's high-end, vacation-home buyer.

This SFG borrower carefully considered his timing and sizing strategies, ending up with a terrific, market-driven product. Seattle Funding Group carefully underwrote the request, allocating a great deal of time to due diligence on the plans, budget analysis, the general contractor, sub-market conditions, as-completed value and sponsorship. At the end of the day, all parties carefully weighed and balanced the project from every perspective...and advanced for the right reasons.

Update: This home sold quickly upon completion for \$6,650,000 and our SFG loan was paid in full.

...AND BETTER...

\$980,000 59% LTV
**43 Unit Apartment,
Strategic Location
Salt Lake City, UT**

This 43 unit apartment building is located in a terrific location of Salt Lake City commonly known as the Sugar House neighborhood. After a split with their business partner, our borrower needed to reestablish some seasoning as sole owner; prior to traditional financing. Seattle Funding Group structured the cash-out refi loan with some additional funds to take care of maintenance items, qualifying the property for long term refinance. The subject is a fully stabilized high demand property in a very solid location.



\$1,550,000 59% LTV
**Prime Commercial Property on Main Street
Park City, Utah**

Prime downtown commercial building on Main Street, Park City purchased for \$2,950,000. A seasoned commercial property and business owner sought a well located address for his film production and event hosting company, near the world renowned Sundance Film Festival. Time was of the essence as a terrific value was negotiated for an early close. The Seattle Funding Group team evaluated, inspected and appraised the subject asset, with the relationships already developed from years of SFG lending in the area. The transaction closed well ahead of schedule and the borrower captured their discount.



...AND BETTER!



\$915,000 65% LTV
High Demand Location
Mercer Island, WA



\$1,770,000 52% LTV
Luxury Construction
Clyde Hill, WA



\$1,915,000 55% LTV
Demo and New Construction
Manhattan Beach, CA



\$650,000 59% LTV
Time-Sensitive and Pivotal
Century City (LA), CA



\$1,600,000 61% LTV
Cash Out Bridge Financing
Beverly Grove (LA), CA

KEYS TO SFG UNDERWRITING

A SIMPLE REVIEW



SFG Income Fund managers Greg Elderkin (left) and John Odegard (right).

At SFG we follow several disciplined underwriting strategies to ensure quality loans. Six keys are detailed here.

Location

When assessing cash value of the collateral backing up our loans, location is king. For this reason we typically stay in core locations within the metro markets we service and in markets we know well. The securing property's location is the primary component that ignites market demand, should it be offered for sale on the open market. SFG Fund managers recognize this reality and put a heavy emphasis on, not only the securing property's geographic location, but "site specific" as well.

Property Type and Fit

Property type and fit – condition and function – is our second screen. Certain property types have a larger audience of prospective buyers than others. On the highly marketable end of the scale are properties securing SFG loans, such as single family homes, buildable lots in matured neighborhoods and well-located apartments, office buildings, retail and light industrial that meet general market demand. These property types not only have the largest audience for resale, but they are also the easiest properties for incoming buyers to get financing. For this reason they are more sellable and maintain higher degrees of value stability. We consider the physical structure of a commercial property to be "fit" if it doesn't have functional inadequacies with parking, access, visibility, condition and other essential elements to maximize its use and value.

Borrower Quality

Borrower quality must be appropriate for the property/project, including credit, character,

skills and liquidity. This analysis may differ widely, for example, between a stabilized retail center with long-term national tenants to a ground-up construction project.

Exit Strategy

SFG borrowers must have an achievable financial plan for loan approval, including a transparent and sensible strategy to exit our loan prior to its maturity. SFG underwriters thoroughly vet the prospective borrower's exit strategy for practicality and probability. This analysis is then factored into the loan decision.

SFG Value Debate

At SFG we take great pride in what we call the "value debate." After all the data is in, SFG Fund managers and underwriters grind through spirited "what if's" to arrive at a value we can count on to protect investor capital.

Loan to Value (LTV)

Only after all elements above have been thoroughly vetted – location, property type and fit, borrower quality, exit strategy and value debate – can an appropriate Loan to Value ratio be established. The rookie mistake is to simply order an appraisal and buy into it, or believe one can avoid the disciplines of vigilant underwriting simply by lowering the LTV. Not so. That is called LTGV – Loan to Guess Value – and has no place in a prudent portfolio. Without thoroughly understanding what one is lending on and to whom, the success of the loan is uncertain at best. Then, and only then, a custom loan amount is established to fit the specific property and borrower circumstance.

SFG Income Fund managers never let raising investor capital get ahead of prudent loan demand. We have always held steadfast to the belief that excess quality investment opportunities should drive the need for capital, not excess available capital forcing the need to invest. For this reason, our funds are generally only open to new investors for short periods of time. We have a long history of operating with this “capital conservative” approach, a key ingredient to our success over the last 26 years.

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demand. We are excited about the promise of a new fund offering for our investors. *However, achieving all of the SFG Income Fund VI objectives is our first priority and nothing will interfere with our resolve for their accomplishment.* Integral to this strategy is our continued growth in market share for premium grade, first position, equity loans.

With 26 years in the business, Seattle Funding Group’s loan volume continues to climb, positioning the SFG Income Fund to capture the very best loan opportunities. As our loan volume escalates, so does the fund’s interest earnings with both advancing nicely. For better clarity, let’s put our current loan pace into perspective. In 2010, we closed 14 loans from January through July, during the apogee of the Great Recession. In 2011, we closed 18 during the same time period, while 37 loans were closed in the first half of 2012. We achieved even better results in 2013: 50 loans were closed from the start

of the year to July. At the end of July 2014, we have closed 73 loans. As a percentage, that’s a substantial increase and a very good omen for SFG investors. The SFG investment mantra has always been quality

over quantity but today the strong brand recognition of Seattle Funding Group has positioned us to obtain both. As you read through the success stories in this issue, take note of the consistently terrific locations, product type and equity cushions protecting your capital. It’s a peaceful feeling knowing one’s investments are well-protected. Your SFG investment is once again below the turbulence of today’s economic volatility, moving swiftly toward full recovery and higher yields. **SFG**

SEATTLE FUNDING GROUP MARKETING



SEATTLE FUNDING GROUP INVESTS MANY TIMES THE INDUSTRY AVERAGE ON MARKETING AND HAS SUBSTANTIAL BRAND RECOGNITION.

SFG

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